

MEMO# 8180

August 27, 1996

CHECK AGING STUDY

August 27, 1996 TO: OPERATIONS COMMITTEE No. 20-96 TRANSFER AGENT ADVISORY COMMITTEE No. 51-96 RE: CHECK AGING STUDY

Attached are the results of the Operations Committees Check Aging Study. This is a study of checks presented for mutual fund share purchases during the month of May, 1996. It is performed in an effort to determine when monies from checks deposited into mutual fund accounts are clearing through the Federal Reserve System. The results of the study have aided mutual funds in establishing appropriate redemption policies where fund shares are purchased by check. Participants Fifty-one management companies participated in the survey representing 658 funds. A list of the management companies participating is attached. (Exhibit I.) Please note that survey results pertain only to the 658 funds participating in this survey. Check Clearance Through Banking System The results of the funds surveyed show that for the month of May, 1996, a total of 1,097,468 shareholder checks were deposited and cleared. In order to determine the number of days in which checks clear through the banking system, we asked participants to provide 1.) a breakdown of the number of checks which were returned by the bank and 2.) the number of days elapsed from the date of deposit to the date of return. Please note that this is a measurement of the elapsed time from date of deposit to date of return and not an attempt to measure the time in which the check actually cleared through the banking system. This methodology is consistent with prior Operations Committee Check Aging Studies. For the month of May, a total of 2,450 checks were dishonored or returned by the bank. Of these, a total of 2,054 checks or 84% were returned within 10 days of deposit. Within 15 days of deposit, 2,266 checks or 92% of the checks were returned. (Exhibit II.) Participants were asked to provide a reason for checks returned 11 days or later after deposit. We received information on 221 of the 396 checks that were returned 11 days or later. Of those 221 checks, 63.5% were returned due to insufficient funds, 12.7% were returned due to a stop payment on the check, and 4% were returned because the account was closed. A breakdown of the reasons for checks returned after 11 days is attached. (Exhibit II.) The Operations Committee conducted nine Check Aging Studies during the period from July 1980 to March 1991. Studies conducted prior to 1987 showed that the majority of the checks were returned between 6-15 days. In 1988, after implementation of the Federal Reserve rules under the Expedited Funds Availability Act, some improvement in check clearance was observed. In the study conducted March 1991, 65.6% of checks were returned in 1-5 days and 29.4% of checks were returned in 6-10 days. Within 15 days of deposit, 98% of all dishonored checks were returned to the fund. No studies were conducted between 1991 and 1996. However, the May, 1996 survey shows that checks are not clearing as quickly as they were in 1991, with only 92% of checks returned within 15 days. In contrast with March 1991, 35.6% of checks were returned in 1-5 days and 46% were returned in 6-10 days. However, of the 1,132 checks returned in 6-10 days, 400 were

returned on the 6th day. A summary of the previous Check Aging Studies from 1980 through 1996 have been attached for your convenience. (Exhibit IV) Fund Hold Policy Participating funds were asked to provide information regarding the number of calendar (or business) days a fund may delay the mailing of redemption proceeds while waiting for a purchase check to clear. The number ranges from 7 to 15 days. Of the 51 firms responding to the survey, 26 firms or 51% have a hold policy of 15 calendar days and 15 firms or 29% have a hold policy of 10 calendar days. (Exhibit IV) Participating funds were also asked to provide the number of redemption requests in which proceeds were delayed because they were received during the funds hold period. For the month of May, 1996, participants indicated that 2,993 redemption requests were delayed as they were received during the funds hold period. We would like to thank all the participating firms for providing information for this Check Aging Study. If you have any questions regarding the Check Aging Study, please contact the undersigned at 202/326-5850. Justine Phoenix Director - Operations/ Transfer Agency Attachments

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